
INVESTMENT SECTION

for Fiscal Year ending June 30, 2006

REPORT ON INVESTMENT ACTIVITY

This report is prepared by the Investment staff of the Kentucky Teachers' Retirement System.

Mr. Paul L. Yancey, CFA
Chief Investment Officer

Mr. Philip L. Webb
Director of Investment Accounting

OVERVIEW

The Board of Trustees of the Teachers' Retirement System annually appoints an Investment Committee consisting of two Board members and the Executive Secretary. This Committee acts on behalf of the Board, subject to its approval, in all matters concerning investments. In compliance with the Kentucky Revised Statutes, the Board of Trustees has adopted an "Investment Policy" which it reviews periodically. The investment objectives of the Board of Trustees are as follows:

1. The funds of the Teachers' Retirement System of the State of Kentucky shall be invested solely in the interest of its members and their beneficiaries. Investment income shall be used for the exclusive purpose of providing benefits to the members and their beneficiaries and making payment of reasonable expenses in administering the Plan and its Trust Funds.
2. The specific objective of the investment program shall be the investment of the Fund's assets in securities which shall provide a reasonable rate of total return with major emphasis being placed upon the protection of the invested assets. When investments are acquired, current income together with prospects for capital appreciation shall be weighed in regard to the long range needs of providing benefits to members and their beneficiaries. Short term fluctuations in the market value of the Fund's assets shall be considered as secondary to the long-term objectives and needs of the System.

Within the Kentucky Revised Statutes and pertinent policies, the Board of Trustees and the Investment Committee shall execute their fiduciary responsibilities in accordance with the "prudent man rule", as identified in KRS 161.430 (2)(b). Investment activities shall be conducted, "with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims". The responsibility for investing the assets of the System is clearly assigned to the Board of Trustees.

INVESTMENT COMMITTEE

MR. ARTHUR W. GREEN
Chairman

MR. ROBERT M. CONLEY
Vice-Chairman

MR. GARY L. HARBIN, CPA
Ex-Officio Member, Executive Secretary

EXECUTIVE INVESTMENT STAFF

MR. GARY L. HARBIN, CPA
Executive Secretary

MR. PAUL L. YANCEY, CFA
Chief Investment Officer

PROFESSIONAL CONSULTANTS

Investment Advisors

Fixed Income and Equity Managers

Todd Investment Advisors
101 South Fifth Street
National City Towers, Suite 3160
Louisville, Kentucky 40202

Fixed Income Manager

Galliard Capital Management
800 LaSalle Avenue
Suite 2060
Minneapolis, Minnesota 55502

Equity Managers

UBS Global Asset Management
UBS Tower
One North Wacker Drive
Chicago, Illinois 60606

Wellington Management Company
75 State Street
Boston, Massachusetts 02109

GE Asset Management
3001 Summer Street
Stamford, Connecticut 06904

Investment Consultant

Becker, Burke Associates, Inc.
Suite 1000
221 North LaSalle Street
Chicago, Illinois 60601

Investment Consultant/Subcustodian

Farmers Bank and Capital Trust Co.
Farmers Bank Plaza
Frankfort, Kentucky 40601

The Bank of New York
One Wall Street
New York, New York 10286

INVESTMENT CONSULTANT'S STATEMENT

Becker, Burke Associates served as Investment Consultant to the Kentucky Teachers' Retirement System during the 2005-06 fiscal year as it has in several previous years. Becker, Burke Associates is familiar with the operation of the System's investment program as well as its performance. The investment program of the Retirement System is operated in a prudent manner that reflects a desire to preserve capital while maximizing returns. The assets of the Retirement System are assigned to various portfolios in order to diversify the System's investments and take advantage of opportunities in various asset classes and sectors. The System gravitates toward relatively conservative holdings in each asset class. The overall effect of diversification is to minimize risk. The manner in which the Retirement System operates and its investment results are commensurate with other risk-averse institutional investors in similar regulatory environments.



Edmund M. Burke
President
Becker, Burke Associates
September 22, 2006

ASSET ALLOCATION

The Board of Trustees and the Investment Committee are guided by asset allocation parameters that the Board approves through its powers defined in KRS 161.430. The asset allocation limits complement the investment principles used by the Board and Committee regarding security, diversification, high return, and liquidity. The asset allocation policy is adopted by the Board of Trustees and approved in the form of administrative regulation. The asset allocation parameters are structured in order to maximize return while at the same time provide a prudent diversification of assets and preserve the capital of the Teachers' Retirement System. The Board is interested in assuming secure investments that will provide long term growth to the fund. The Board does not arbitrarily compromise security in order to enhance the prospects of return. The Investment Committee and the Board are mindful of the fund's liquidity and its capability of meeting both short and long term obligations. Asset allocation parameters follow:

1. There will be no limit on the amount of investments owned by the System that are guaranteed by the U.S. Government.
2. Not more than 35% of the assets of the System at book value shall be invested in corporate debt obligations.
3. Not more than 60% of the assets of the System at book value shall be invested in common stocks or preferred stocks. No more than 25% of the assets of the System at book value shall be invested in a stock portfolio designed to replicate a general, U.S. stock index.
4. Not more than 10% of the assets of the System at book value shall be invested in real estate. This would include real estate equity, real estate lease agreements, mortgages on real estate that are not guaranteed by the U.S. Government, and shares in real estate investment trusts.
5. Not more than 10% of the assets of the System at book value shall be invested in any additional category or categories of investments. The Board shall approve by resolution such additional category or categories of investments. Within this parameter, to further diversify the portfolio, the Board approved provisions that permit the limited ownership of foreign equities, timberland, and private equity.

The asset allocation of investments at market value was somewhat different at the beginning of the fiscal year than it was on June 30, 2006. In addition, the market value allocation of assets through the dynamics of the securities markets is different than the book value allocations. During the 2005-06 fiscal year, the market value of the stock position increased from 56% of assets the previous year to 61% of assets. The portion of the portfolio in Government securities decreased from 19% to 16%. The cash position decreased during the year to 5.7% of assets. The real estate equity position remained a relatively small portion of the System's portfolio at approximately 3%.

The Kentucky Revised Statutes require the Board of Trustees to employ experienced investment counselors to advise it on investment related matters. Todd Investment Advisors was employed during 2005-06 as the System's principal investment counselor, providing assistance in the management of \$2.9 billion of stocks and bonds. UBS Global Asset Management, Wellington Management Company, Galliard Capital Management, and GE Asset Management also were retained during the 2005-06 fiscal year to provide investment counseling services. Galliard Capital Management assisted in the management of approximately \$878 million in bonds. GE Asset Management managed about \$599 million in equity investments. UBS Global Asset

Management was responsible for managing approximately \$1.1 billion in equities, and Wellington Management Company managed about \$1.1 billion in equities. In addition to monitoring the investment counselors, the in-house investment staff managed about \$7.2 billion of fixed income and equity assets. All of the investment firms, while specializing in particular asset classes or sectors, are required to work within the same broad objectives, portfolio constraints, and administrative guidelines. Five investment counselors plus an in-house staff provide the Board of Trustees with a diversification of management that is appropriate for a \$13.9 billion fund. The Farmers Bank & Capital Trust Company, located in Frankfort, Kentucky, was retained in 2005-06 as the Custodian of Securities with the Bank of New York serving as a sub-custodian.

The System regularly votes proxy statements associated with its equity ownership. The positions assumed by the System are intended to represent the financial interests of the membership. The Board of Trustees has adopted a policy that directs the staff not to subjugate the financial concerns of the System to social or political protests. At the same time, the System expects the companies in which it acquires stock to be solid corporate citizens that abide by Federal, state, and local laws.

FINANCIAL ENVIRONMENT

In the fiscal year ended June 30, 2006, economic growth and corporate profits remained healthy and equities generally produced respectable, if unspectacular, returns. Clearly, the market was battling the headwinds of rising interest rates and energy prices. The market admirably absorbed the blow of Hurricane Katrina in late summer 2005 and a spike in natural gas prices into the following fall and winter. Steadily rising short-term interest rates and oil prices were a more persistent problem, however. Overall, the S&P 500 Index returned 8.6% for the fiscal year, with those returns a bit concentrated in the energy sector, which returned 12.8%.

Over the fiscal year, gross domestic product, adjusted for inflation, grew at a healthy 3.5% pace. Industrial production rose 4.5%. Jobs continued to be created at a relatively strong pace, with the unemployment rate falling from 5.0% to 4.6%. This underlying economic strength supported the market through most of the fiscal year. Countervailing trends restraining the economy and equity prices grew as the year went on, however.

Chief among these restraining influences was the price of energy. The initial blow of Hurricane Katrina and other storms in late August and September, 2005, crippled the Gulf Coast energy infrastructure. Oil prices surged from \$56.50 per barrel on June 30, 2005 to about \$70 at the time of Hurricane Katrina, before falling back below \$60 later in the fall. Natural gas futures spiked from under \$8 per contract at the beginning of the fiscal year to a high of \$15.38 in December before falling back below \$8 by late winter. While the natural gas spike was sharp, but temporary, oil prices resumed their climb, finishing the fiscal year at \$73.93 per barrel. Oil prices were up 31% for the fiscal year.

The other key restraining influence on the economy and equity market was rising interest rates. The Federal Reserve raised the short-term federal funds rate methodically in eight quarter-point increments, from 3.25% to 5.25%. The Federal Reserve's goal was to control inflationary pressures. The Consumer Price Index was up 4.3% over the fiscal year, or 2.6% excluding food and energy. Over the previous twelve months the Consumer Price Index had risen 2.5%, or 2.0% excluding food and energy.

In this environment, the strongest industry sector within the S&P 500 over the fiscal year was energy (+ 12.8%). Also doing well were telecommunications (+ 11.8%) and industrials (+ 6.0%). The weakest sector was information technology (-6.2%), followed by health care (-4.6%).

Smaller companies generally outperformed the largest companies, with the S&P 400 Mid Cap Index returning 13.0% and the S&P 600 Small Cap Index returning 13.9% versus 8.6% for the Large Cap S&P 500 Index . By quarter, the S&P 500 returned 3.6% in the first quarter of the fiscal year, 2.1% in the second quarter, 4.2% in the third quarter, and -1.4% in the final quarter, ended June 30, 2006. In typical fashion, smaller companies generally outperformed during rising markets and underperformed in falling markets. By early 2006, small and mid cap stocks had outperformed large cap stocks for over six years. That is an extended period for such a trend, indicating that a shift in favor of large caps may be due.

Value stocks generally outperformed growth stocks, particularly among large cap stocks. In the large cap arena, the Russell 1000 Value Index was up 12.1% for the fiscal year versus 6.1% for the Russell 1000 Growth Index. In mid caps, the Russell Mid Cap Value Index returned 14.3% versus 13.0% for the Russell Mid Cap Growth Index. Among small caps the differential disappeared, with both the Russell 2000 Value Index and Russell 2000 Growth Index returning 14.6%. The value/growth performance differential was clearly correlated with industry sector performance. The energy, telecommunications, and industrial sectors, which are considered low growth or value sectors, performed well. The growth industries of information technology and health care performed poorly.

By the final quarter of the fiscal year, it was becoming clear that the cumulative effect of sustained high energy prices and rising interest rates was taking a toll on the economy. Adjusted for inflation, retail sales in June, 2006 were up only 1.6% over a year earlier. Housing starts in June were 11% below a year earlier. Employment growth had clearly slowed, from a monthly average growth of 179,000 in the quarter ended December, 2005 to a monthly average of 112,000 in the quarter ended June, 2006. The equity market responded with a weak quarter. The S&P 500 was down 1.4% for the quarter, while the Mid Cap 400 was down 3.1% and the Small Cap 600 was down 4.6%.

At the end of the fiscal year the economy continued to grow, albeit at a slowing pace. After its interest rate hike in late June, the Federal Reserve acknowledged the incipient slowdown in its statement and indicated that future policy would depend upon future economic developments. Key issues facing the equity market going forward were whether the Federal Reserve had successfully engineered a slowdown to a sustainable, non-inflationary growth rate, and whether oil prices would continue to rise.

FIXED INCOME MARKET

Going into the fiscal year, the prospects were not bright for returns in the fixed income market. In the U.S. Treasury market, yields ranged from about 3.1% on the shortest instruments to 4.2% on thirty-year bonds. The economy was strong, inflationary pressures were rising, largely due to surging oil prices, and the Federal Reserve was steadily raising short-term interest rates with no near-term end in sight. By the end of the fiscal year, yields were at or above 5% across the Treasury maturity spectrum. Yields steadily rose through the year and prices of existing fixed rate bonds fell. The Lehman Government/Credit Index produced a total return of -1.52% for the fiscal year.

The Federal Reserve raised the federal funds rate in eight quarter-point increments--at each regularly scheduled meeting--from 3.25% at the beginning of the fiscal year to 5.25% in late June, 2006. The cumulative effect of this was to cause a further "flattening" of the yield curve, with short-term rates rising more than long-term rates. While short-term rates rose two full percentage points over the year, the yield on the thirty-year Treasury bond rose only one percentage point, from 4.2% to 5.2%. By the end of the fiscal year, the yield curve was slightly "inverted", with some short-

term rates higher than longer-term rates. Such an inversion is often a harbinger of economic weakness in the foreseeable future. Right on cue, in its statement raising the federal funds rate to 5.25%--above longer-term rates--the Federal Reserve recognized developing economic weakness and indicated that future policy would depend upon developments. Two years of automatic increases were over.

As yields rose and the term structure flattened, the only real refuge in the investment grade bond market was shorter maturities. Though yields rose less on long-term bonds, they still posted worse returns due to their greater price sensitivity to yield increases. Within the Lehman Government/Credit Index, one-to-three year bonds returned +1.93% while bonds longer than ten years returned -6.47%. Across maturities, investment grade corporate bonds returned -2.22% compared to -1.68% for U.S. Treasury bonds. Fixed rate mortgage securities held up relatively well in the rising rate environment, with a total return of 0.39%. Below investment grade bonds were the best performing sector in the fiscal year, with the Lehman High Yield Index returning 4.8%.

By the summer of 2006, it was becoming increasingly clear that the relatively strong economic growth of the past twelve months was softening. Notably, the housing market was weakening. Existing home sales in June were 8.2% below a year earlier and a rising inventory of unsold homes was putting downward pressure on values. Retail sales were weakening, with a heavily indebted consumer sector under increasing pressure from rising gasoline prices. Employment growth showed clear signs of weakening. Though inflationary pressures stoked by increases in oil and other commodities had yet to abate, inflation typically starts to decline only several months after the economy begins to weaken. The overall environment appeared to be one in which interest rates were unlikely to rise much further in the near term.

At the end of the fiscal year, the outlook for fixed income was better than a year earlier, but mixed. Yield levels were above 5% in the Treasury market and above 6% in lower quality investment grade corporate bonds and mortgages. The Federal Reserve appeared to be at or near the end of its campaign of short-term interest rate hikes. On the other hand, the markets continued to provide historically thin levels of yield compensation for credit risk and a slowing economy threatened to cause credit deterioration down the road. In addition, leveraged buyouts of public companies by private equity investors were bringing about sudden credit deterioration in corporate bonds with increasing frequency. By all indications, this trend would only increase. If one could avoid potential credit landmines in the future, the prospects were improving for a return to more normal inflation-adjusted bond returns.

PORTFOLIO CHARACTERISTICS

At year's end, the System's entire stock portfolios, exclusive of the stock index fund and the international portfolio, could be characterized as high quality and diversified. The KTRS portfolio, as measured by beta, was approximately as risky as the Standard & Poor's 500 Index. Beta is a measure of the volatility in price of a particular stock or portfolio compared to the volatility of the index. The beta of the KTRS portfolio at the end of the fiscal year was 1.03. The KTRS portfolio registered a price-earnings multiple that was higher than the index. The price-earnings ratio for the portfolio at the end of the fiscal year was 17.0, compared to 16.84 for the index. Two factors attesting to the high quality of the portfolio were the high rate of growth in both earnings per share and dividends per share. The average earnings growth rate over the past five years for the KTRS stock portfolio was 18.4%. The average dividend growth rate for the past five years of the KTRS portfolio was 15.2%. At the end of the 2005-06 fiscal year, the yield level for the KTRS portfolio stood at 1.89%, which was slightly higher than the index's yield of 1.85%.

The stock position, apart from the stock index fund and the international portfolio, began the 2005-06 fiscal year by being 31.4% of assets at market value, and by year-end, it constituted 31.9% of assets. In dollars, the value of the stock position increased from approximately \$4.3 billion to about \$4.4 billion in 2005-06. The three stock index funds represented another \$3.8 billion that was invested in stocks at year end, while \$320 million was invested in an international portfolio. At the end of 2005-06, the sector weightings in the KTRS stock portfolio were similar to those of the Standard & Poor's 500 Index. The greatest differences were underweightings by KTRS in the consumer staples and energy sectors and overweightings in the consumer discretionary, health care, and information technology sectors.

On June 30, 2006, the System's entire bond portfolio had a duration of 5.1 years. The average coupon rate for the holdings was 5.5%. As of June 30, 2006, the average maturity of the fixed income portfolio was 7.7 years. The maturities of fixed income investments will generate cash for the fund in future years. Approximately 74% of the fixed income investments, including short term cash equivalents, will mature by the end of 2018, about 12 years. This will assist the System in meeting retirement fund obligations as well as permit it to assume new investments.

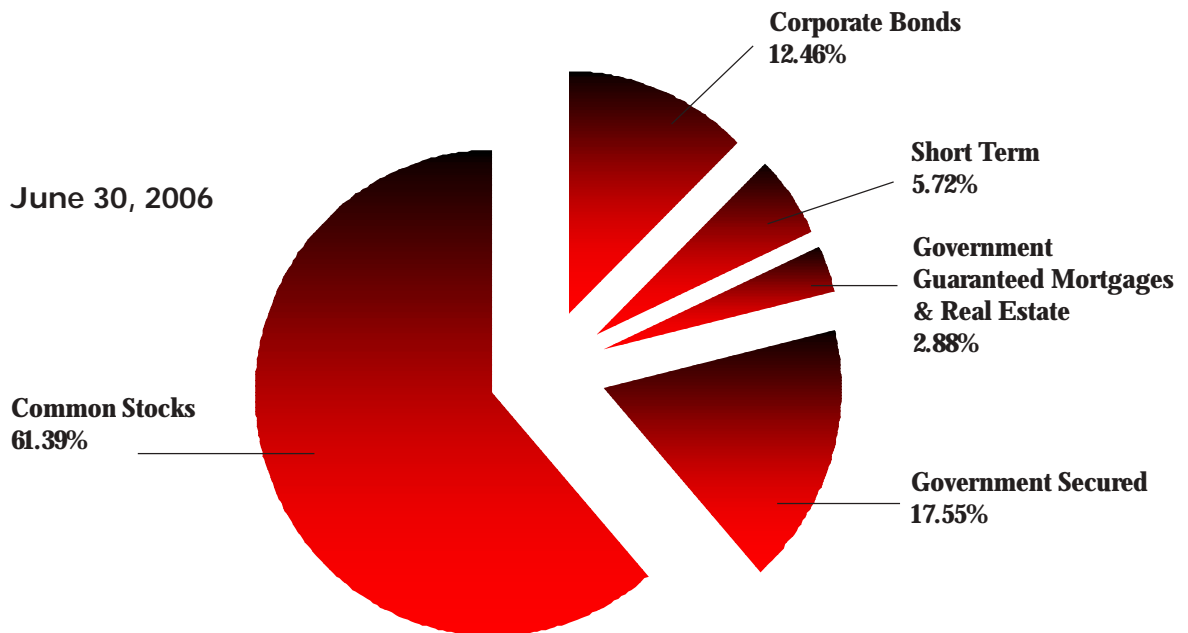
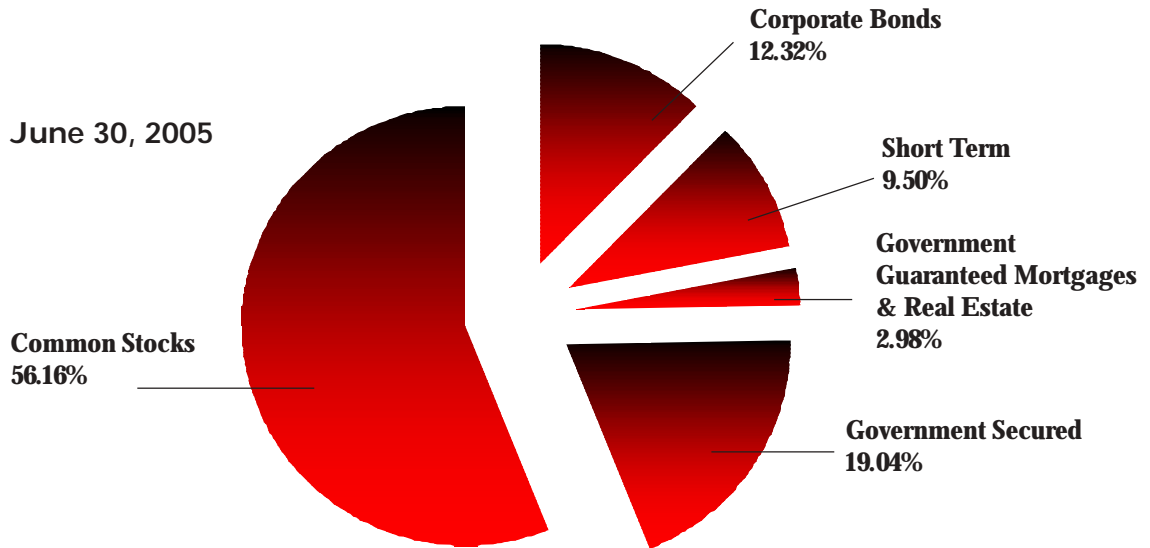
PORTFOLIO RETURNS

The investment portfolio experienced growth in book values and its market value during the 2005-06 year. The market value of the portfolio increased \$342.9 million to a total of \$13.9 billion at year-end. The book value of the fund increased \$262.9 million during the year. The System accumulated in excess of \$651 million of investment income during 2005-06; this investment income total excludes monies earned but not received by the end of the fiscal year. The income resulted from interest, dividends, rental income, lending income, and gains.

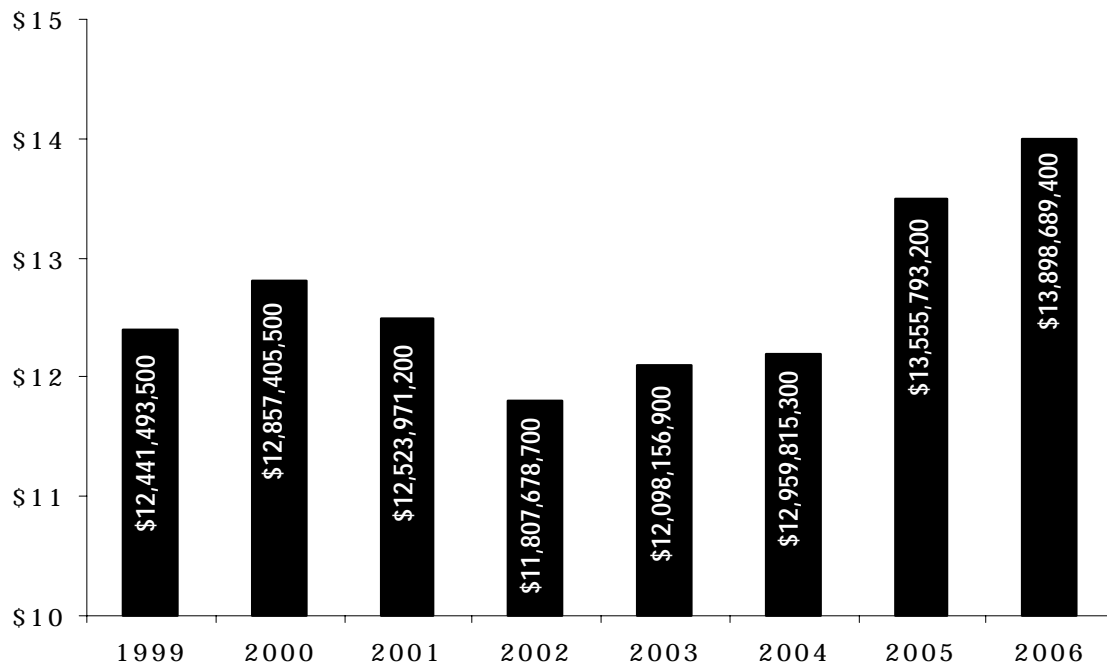
For the 2005-06 fiscal year, the total return earned by the System's stock position is higher than the return generated by the Standard & Poor's 500 Stock Index. The KTRS stock position earned a total return of 9.0% in 2005-06, while the stock index earned 8.6%. The ten year annualized return for the years 1997 through 2006 was 8.9% for the System's stock position and 8.3% for the stock index. The System's bond position earned a ten year annualized total return of 6.4%. This is slightly higher than the 6.2% return earned by the Lehman Government/Credit High Quality Index. In 2005-06, the System's bonds earned a total return of (1.2)%, while the Lehman High Quality Index earned (1.4)%. The entire portfolio earned a total return of 5.4% in 2005-06. The portfolio's ten year annualized rate of total return was 7.5%. The total return of the portfolio over ten years more than kept up with the rate of inflation and provided real growth. In 2005-06, the Consumer Price Index registered an inflation rate of 4.3%. The ten year annualized rate is 2.6%. The System's returns were generated by the CRA Rogers Casey performance reporting system using a time-weighted rate of return calculation based upon the modified Dietz methodology.

The charts that follow this narrative graphically display the growth that is discussed in the preceding paragraphs. Following the charts is a summary description of investments held at June 30, 2006. The System annually produces a detailed investment report that is available on request.

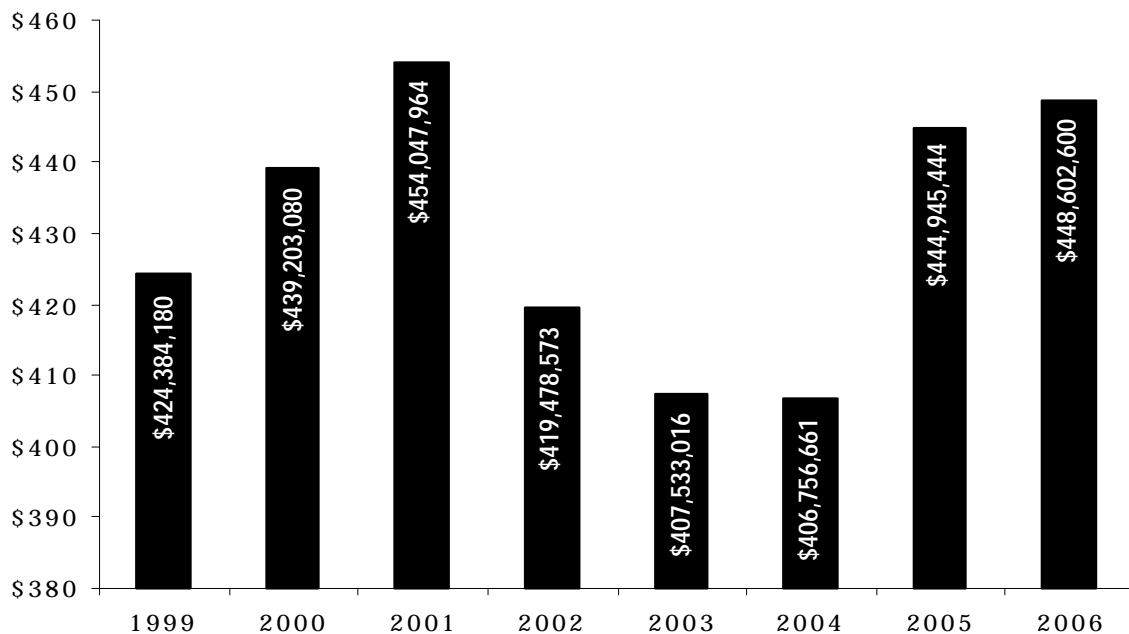
**Distribution of Investments
Market Values**



Investment Portfolio Growth
Market Values



Investment Income Growth
Excludes Amortization
Excludes Net Gains



INVESTMENT SECTION

Total Return on KTRS Investments* Percentages

Fiscal Year	Standard & Poor's 500 Index	KTRS Stocks	Lehman Govt./Credit High Quality Index	KTRS Bonds	Consumer Price Index	KTRS Cash Collection Fund	KTRS Real Estate	KTRS Total Portfolio
1996-97	34.7	33.1	7.6	7.8	2.3	5.8	8.8	19.6
1997-98	30.2	29.2	11.3	11.6	1.7	6.1	9.7	19.4
1998-99	22.8	22.0	2.7	2.3	2.0	5.3	9.7	11.5
1999-00	7.3	3.6	4.6	4.9	3.7	5.8	9.9	4.1
2000-01	(14.8)	(8.9)	11.0	10.9	3.3	6.0	9.5	(0.7)
2001-02	(18.0)	(14.5)	8.6	9.5	1.1	2.5	6.0	4.1
2002-03	0.3	(1.1)	12.3	12.4	2.1	1.5	9.3	4.8
2003-04	19.1	19.2	(1.2)	(0.7)	3.2	1.0	9.7	9.7
2004-05	6.3	7.9	7.0	7.6	2.5	2.3	9.6	7.5
2005-06	8.6	9.0	(1.4)	(1.2)	4.3	5.0	11.3	5.4
Three Year Annualized Rate	11.2	11.8	1.4	1.8	3.3	2.8	10.2	7.5
Five Year Annualized Rate	2.5	3.5	4.9	5.4	2.6	2.4	9.2	4.6
Eight Year Annualized Rate	3.0	4.0	5.3	5.6	2.8	3.7	9.4	4.7
Ten Year Annualized Rate	8.3	8.9	6.2	6.4	2.6	4.1	9.3	7.5
Fifteen Year Annualized Rate	10.7	11.1	6.9	7.1	2.7	4.3	9.2	8.6
Twenty Year Annualized Rate	11.0	11.1	6.0	7.5	3.1	---	---	8.8

* The performance calculations presented above were generated by the CRA Rogers Casey Performance reporting system using a time-weighted rate of return calculation based upon the Dietz methodology.

**Investment Summary
Fair Market Value
06/30/2006**

Type of Investment	Fair Value 07/01/05	Acquisitions	Appreciation (Depreciation)	Sales Redemptions, Maturities & Paydowns	Fair Value 06/30/06
Short Term	1,287,800,000	45,489,990,100	1,350,900	45,984,841,000	794,300,000
Fixed Income	4,269,791,300	2,047,313,100	(274,273,400)	1,857,629,100	4,185,201,900
Equities	7,998,201,900	2,537,319,200	555,495,200	2,171,828,800	8,919,187,500
TOTAL	13,555,793,200	50,074,622,400	282,572,700	50,014,298,900	13,898,689,400

**Contracted Investment Management Expenses
(\$ Thousands) as of 06/30/2006**

	Assets Under Management	Expenses	Basis Points *
INVESTMENT MANAGER FEES			
Fixed Income Managers	\$ 878,422	\$ 313	3.6
Equity Managers	2,869,234	4,119	14.4
Balanced Manager	<u>2,912,421</u>	<u>1,125</u>	3.9
TOTALS	\$ 6,660,077	\$ 5,557	8.3
OTHER INVESTMENT SERVICES			
Custodian Services	\$ 13,898,689	\$ 493	0.4
Investment Consultant		<u>65</u>	
TOTAL		\$ 558	
GRAND TOTAL		\$ 6,115	4.4

* One basis point is one-hundreth of one percent or the equivalent of .0001.

Transaction Commissions

06/30/2006

COMPANIES	SHARES TRADED	COMMISSIONS	COMMISSION PER SHARE
ADVEST INC	664,600	26,584.00	0.0400
B TRADE SERVICES	91,445	457.23	0.0050
BANC OF AMERICA	8,202,731	397,811.81	0.0485
BASS TRADING	19,000	760.00	0.0400
BEAR STEARNS	727,880	30,612.70	0.0421
BENCHMARK COMPANY	1,600	64.00	0.0400
BLAIR, WILLIAM & CO (IPO)	1,100	1,210.00	1.1000
BNY BROKERAGE	1,369,498	56,257.92	0.0411
BOENNING & SCATTERGOOD	197,430	4,505.17	0.0228
C E UNTERBERG TOWBIN	36,400	15,396.44	0.4230
C S FIRST BOSTON (IPO)	2,300	2,311.20	1.0049
CANACCORD ADAMS	15,400	659.00	0.0428
CANTOR FITZGERALD & CO	117,100	5,195.00	0.0444
CHAPDELAINE PENSION	37,700	1,508.00	0.0400
CIBC OPPENHEIMER WORLDMARKET	372,200	13,196.00	0.0355
CITIGROUP	4,761,556	191,780.44	0.0403
COLLINS STEWART INC	7,000	280.00	0.0400
COWAN & CO	224,675	14,962.60	0.0666
CREDIT SUISSE SEC LLC	2,981,874	120,214.86	0.0403
CROWELL WEEDON & CO	73,170	2,926.80	0.0400
CUTTONE & COMPANY	6,200	155.00	0.0250
DEUTSCHE BANK SECURITIES	1,102,360	52,897.60	0.0480
DOWLING & PARTNERS	35,800	1,432.00	0.0400
E-TRADE CAPITAL MARK	47,600	1,904.00	0.0400
EURO BROKERS	14,200	426.00	0.0300
FIDELITY CAPITAL MARKETS	17,000	510.00	0.0300
FIRST KY SEC	1,120,600	44,824.00	0.0400
FOX PITT KELTON INC	99,900	3,996.00	0.0400
FREIDMAN BILLINGS	86,800	3,365.00	0.0388
FTN FINANCIAL CAPITAL	92,800	3,712.00	0.0400
FULCRUM GLOBAL PARTNERS	18,000	720.00	0.0400
GOLDMAN SACHS & CO	4,250,828	173,001.99	0.0407
HARRIS NESBITT GERAR	31,300	1,410.00	0.0450
HEFLIN & CO	146,400	5,856.00	0.0400
HOWE BARNES INVESTMENT	70,400	2,816.00	0.0400
HSBC SECURITIES	13,600	648.00	0.0476
INSTINET	86,200	918.25	0.0107
INVESTMENT TECHNOLOGY GROUP	22,396,109	364,789.12	0.0163
ITG TRANSITIONS TRADE	30,782,552	230,869.24	0.0075
ISI GROUP	1,783,600	71,344.00	0.0400
J J B HILLIARD W L LYONS	2,148,174	85,926.96	0.0400
JEFFERIES & CO	2,891,616	112,850.06	0.0390
JMP SECURITIES	5,900	236.00	0.0400
JONES & ASSOCIATES	155,800	6,232.00	0.0400
JP MORGAN & CHASE	391,000	17,519.00	0.0448
KEEFE BRUYETTE & WOODS	42,300	3,039.80	0.0719
KEYBANC CAPITAL MARKETS	27,800	2,174.00	0.0782
KNIGHT EQUITY MARKETS	321,400	11,210.00	0.0349
KOENIG SECURITIES	1,000	25.00	0.0250
KV EXECUTION SERVICES	163,330	3,114.25	0.0191
LAZARD FRERES & CO	3,716,308	148,652.32	0.0400

KENTUCKY TEACHERS' RETIREMENT SYSTEM

Transaction Commissions continued . . .

COMPANIES	SHARES TRADED	COMMISSIONS	COMMISSION PER SHARE
LEERINK SWANN & CO	32,900	1,328.50	0.0404
LEGG MASON WOOD WALKER	1,082,586	43,303.44	0.0400
LEHMAN BROTHERS	5,215,639	127,989.55	0.0245
LEXINGTON INVESTMENT CO	1,413,095	56,523.80	0.0400
LIQUIDNET INC	1,683,590	33,671.80	0.0200
MERRILL LYNCH	9,895,008	356,333.69	0.0360
MOORS & CABOT	12,400	496.00	0.0400
MORGAN KEEGAN	1,873,696	74,947.84	0.0400
MORGAN STANLEY/DEAN WITTER	5,661,596	186,521.51	0.0329
MURPHY & DURIEU	110,000	2,599.25	0.0236
NEEDHAM & CO INC	200	8.00	0.0400
NYFIX TRANSACTION SERVICES	107,100	535.50	0.0050
OPPENHEIMER & CO	55,200	2,208.00	0.0400
OTA LIMITED PARTNERS	43,110	1,724.40	0.0400
PIPELINE TRADING	142,500	2,137.50	0.0150
PRUDENTIAL SECURITIES	249,510	10,733.20	0.0430
PULSE TRADING	41,000	922.50	0.0225
R W BAIRD	31,200	1,248.00	0.0400
RAYMOND JAMES & ASSOCIATES	3,954,762	158,190.48	0.0400
RBC CAPITAL MARKETS	6,500	293.00	0.0451
RBC DAIN RAUSCHER INC	15,800	632.00	0.0400
ROBBINS & HENDERSON	9,600	240.00	0.0250
ROBERT BRANDT	1,500	45.00	0.0300
ROSS SINCLAIRE & ASSOCIATES INC	976,989	39,079.56	0.0400
SANDLER O'NEILL	166,600	6,664.00	0.0400
SANFORD C BERNSTEIN	74,200	1,222.50	0.0165
SOLEIL SECURITIES CO	7,600	304.00	0.0400
STATE STREET BROKERAGE	115,000	3,450.00	0.0300
STEPHENS INC	300	12.00	0.0400
STIFEL NICOLAUS & CO INC	525,996	21,039.84	0.0400
SUNTRUST ROBINSON	13,200	660.00	0.0500
SUSQUEHANNA BROKERAGE	83,100	2,097.00	0.0252
THINK EQUITY PARTNERS	23,100	924.00	0.0400
THOMAS WEISEL PARTNERS	278,920	11,493.80	0.0412
U S BANCORP PIPER JAFFRAY	92,900	4,864.40	0.0524
UBS PAINE WEBBER INC	5,231,187	211,354.98	0.0404
WACHOVIA SECURITIES	2,209,030	110,715.20	0.0501
WEDBUSH MORGAN SEC	8,600	344.00	0.0400
WEEDEN & CO	3,227,900	114,562.00	0.0355
TOTAL	136,644,650	3,834,687.00	0.0281

The over-the-counter commission rate on medium to large capitalization stocks is assumed to be \$.04 per share. The acquisition of initial public offerings (IPOs) represented a portion of small capitalization stock purchases. IPOs usually have a high commission rate. However, the security issuers and not the investors pay the commissions. In 2005-06, the System bought small capitalization IPOs that generated \$113,025.16 in commissions. Although these commissions were not paid by the Retirement System, they resulted from the System's investment activities and are included in the total commissions of \$3,834,687.00. Typical stock transactions occur at lower commission rates than IPO transactions, frequently \$.04 per share or less. Investment companies usually provide investment research for brokerage clients. On occasion, investment companies direct third party research to active clients. The Retirement System received third party research through Lynch Jones Ryan, Merrill Lynch and Lehman Brothers. Trading commissions of \$120,487.85 were associated with third party research obligations. The primary research providers were: Bloomberg, Interactive Data, CRA/Rogers Casey, CMS Bondedge, ISS, QED Information Systems, and Vestek.

**Ten Largest Stock Holdings Ranked*
by Market Value
06/30/06**

<u>Rank</u>	<u>Name</u>	<u>Shares</u>	<u>Market Value</u>
1	Microsoft	8,614,999	200,729,476.70
2	Citigroup Inc	4,006,612	193,278,962.88
3	General Electric Co	5,449,310	179,609,257.60
4	Exxon Mobil Corp	2,293,500	140,706,225.00
5	Bank of America Corp	2,826,700	135,964,270.00
6	Wells Fargo & Co.	1,836,175	123,170,619.00
7	Johnson & Johnson	2,041,859	122,348,191.28
8	Pfizer Inc	4,463,349	104,754,801.03
9	Chevron Corp	1,653,267	102,601,750.02
10	ConocoPhillips	1,466,842	96,122,156.26

**Top Ten Fixed Income Holdings*
06/30/06**

<u>Rank</u>	<u>Description</u>	<u>Maturity</u>	<u>Coupon</u>	<u>Par</u>	<u>Market Value</u>
1	US Treasury Bonds	8/15/2023	6.250	114,500,000.00	126,281,019.50
2	US Treasury Bonds	2/15/2021	7.875	46,500,000.00	58,510,066.50
3	US Treasury Notes	5/15/2015	4.125	59,500,000.00	55,249,022.50
4	US Treasury Bonds	8/15/2029	6.125	47,325,000.00	52,619,484.38
5	US Treasury Bonds	5/15/2016	7.250	35,500,000.00	41,105,130.50
6	US Treasury Bonds	8/15/2021	8.125	29,815,000.00	38,435,738.92
7	US Treasury Notes	2/15/2008	3.000	35,000,000.00	33,817,385.00
8	US Treasury Bonds	11/15/2026	6.500	29,000,000.00	33,268,452.00
9	Bank of America Sub Notes	1/15/2011	7.400	30,000,000.00	31,920,510.00
10	US Treasury Notes	5/15/2007	4.375	32,000,000.00	31,755,008.00

* Detailed information concerning these values along with book values and cost values of all KTRS investments is available upon request.

**Schedule of Investments
as of June 30, 2006**

Investment	Par Value* or Remaining Principal Balance	Market Value	Percentage of Market Value
Repurchase Agreements	794,300,000.00	794,300,000.00	5.71
Total Short Term	794,300,000.00	794,300,000.00	5.71
Treasury Notes and Bonds	970,750,000.00	1,032,439,778.74	7.43
Agencies	1,055,464,545.25	1,039,092,693.14	7.48
GNMA (Single Family)	18,549,099.92	18,781,577.80	0.14
Collateralized Mortgage Obligations	138,811,507.63	134,884,155.61	0.97
Treasury Strip Bonds	37,000,000.00	33,469,087.00	0.24
Total U.S. Government Obligations	2,220,575,152.80	2,258,667,292.29	16.25
Industrials	541,310,000.00	542,410,465.00	3.90
Finance	1,056,458,513.23	1,023,985,966.07	7.37
Utility Bonds (Except Telephone)	120,191,660.00	119,160,317.26	0.86
Telephone Bonds	45,393,600.00	46,512,517.69	0.33
Total Corporate Bonds	1,763,353,773.23	1,732,069,266.02	12.46
FHA & VA Single Family Mortgages	1,840.02	1,903.59	0.00
Project Mortgages (FHA & GNMA)	12,848,706.95	13,687,213.56	0.10
State and Local Government Issues	181,945,000.00	180,776,223.05	1.30
Total Other Fixed Income	194,795,546.97	194,465,340.20	1.40
Subtotal (Fixed Income)	4,973,024,473.00	4,979,501,898.51	35.83
Real Estate Equity	382,353,090.33	387,193,796.00	2.78
Total Real Estate Equity	382,353,090.33	387,193,796.00	2.78
Common Stocks 103,704,198.00 Shares	3,899,332,683.44	4,219,558,752.73	30.36
Small Cap Stocks 7,691,148.00 Shares	152,625,600.54	172,213,413.46	1.24
Stock Index 89,971,582.00 Shares	3,095,524,345.32	3,410,494,171.14	24.54
600 Stock Index 8,532,072.00 Shares	200,089,712.48	245,502,370.18	1.77
400 Stock Index 3,531,176.00 Shares	114,152,330.20	116,844,696.06	0.84
Todd Alpha 1,496,413.00 Shares	49,756,260.17	47,681,449.70	0.34
International 10,610,521.00 Shares	294,611,874.11	319,698,802.78	2.30
Total Stocks 225,537,110.00 Shares	7,806,092,806.26	8,531,993,656.05	61.39
Subtotal (Equity)	8,188,445,896.59	8,919,187,452.05	64.17
Total Investments	13,161,470,369.59	13,898,689,350.56	100.00

* In this asset display, par value represents the redemption value of bonds and the cost value of equities. Market value is a volatile measure that changes daily and represents the approximate transaction value of an investment on a particular day--in this case June 30, 2006. Detailed information concerning these values along with book values and cost values of all KTRS investments is available on request.